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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL  
CHAIRMAN  
JIM IRVIN  
COMMISSIONER  
MARC SPITZER  
COMMISSIONER

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AZ CORP COMMISSION  
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IN THE MATTER OF THE JOINT APPLICATION )  
BETWEEN CONTINENTAL DIVIDE ELECTRIC )  
COOPERATIVE, INC. AND THE NAVAJO )  
TRIBAL UTILITY AUTHORITY FOR THE )  
APPROVAL OF THE SALE OF ELECTRIC )  
UTILITY PROPERTIES AND TRANSFER )  
OF CERTIFICATE OF CONVENIENCE AND )  
NECESSITY )

DOCKET NO. E-01824A-00-0504

Arizona Corporation Commission

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STAFF'S NOTICE OF FILING

The Arizona Corporation Commission Staff ("Staff") hereby files the Direct  
Testimony of Joel M. Reiker, Senior Rate Analyst of the Utilities Division in the above-captioned  
matter.

RESPECTFULLY SUBMITTED this 6th day of April, 2001.

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**DIRECT  
TESTIMONY  
OF  
JOEL M. REIKER  
DOCKET NO. E-01824A-00-0504**

**April 5, 2001**

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL

Chairman

JIM IRVIN

Commissioner

MARC SPITZER

Commissioner

IN THE MATTER OF THE JOINT )  
APPLICATION BETWEEN CONTINENTAL )  
DIVIDE ELECTRIC COOPERATIVE, INC. AND )  
THE NAVAJO TRIBAL UTILITY AUTHORITY )  
FOR THE APPROVAL OF THE SALE OF )  
ELECTRIC UTILITY PROPERTIES AND )  
TRANSFER OF CERTIFICATE OF )  
CONVENIENCE AND NECESSITY )  
\_\_\_\_\_ )

DOCKET NO. E-01824A-00-0504

DIRECT

TESTIMONY

OF

JOEL REIKER

SENIOR RATE ANALYST

UTILITIES DIVISION

April 5, 2001

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EXECUTIVE SUMMARY  
CONTINENTAL DIVIDE ELECTRIC COOPERATIVE, INC.  
NAVAJO TRIBAL UTILITY AUTHORITY  
DOCKET NO. E-01824A-00-0504  
SALE OF ASSETS AND  
TRANSFER OF CC&N

JOEL M. REIKER

On July 14, 2000, Continental Divide Electric Cooperative ("Continental") and the Navajo Tribal Utility Authority ("Utility Authority") filed an application with the Commission requesting approval of the sale of certain electric utility properties in Arizona and the transfer of the Certificate of Convenience and Necessity ("CC&N") from Continental to the Utility Authority.

Continental is a New Mexico-based electric distribution cooperative, which provides electric service to New Mexico and Arizona members. The Utility Authority is a Navajo Tribal entity located in Fort Defiance, Arizona. The Utility Authority provides electric, gas, water, and wastewater utility services to the Navajo Nation. The Utility Authority is not subject to Commission regulation.

On April 13, 2000, Continental and the Utility Authority entered into an agreement under which the Utility Authority will acquire Continental's electric transmission and distribution systems in the state of Arizona and attendant CC&N. The purchase price of the assets is \$2,300,000, compared to a book value of approximately \$2,113,163.

Staff believes that the Utility Authority is a fit and proper entity to assume the CC&N currently held by Continental and the transfer is in the public interest.

Staff recommends that the proposed sale of assets and transfer of the CC&N be approved, subject to a hearing.

1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My name is Joel M. Reiker. I am a Senior Rate Analyst employed by the Arizona  
4 Corporation Commission ("ACC" or "Commission") in the Utilities Division. My  
5 business address is 1200 West Washington, Phoenix, Arizona 85007.

6  
7 Q. Briefly describe your responsibilities as a Senior Rate Analyst.

8 A. In my capacity as a Senior Rate Analyst, I provide recommendations to the Commission  
9 on mergers, acquisitions, financing and sales of assets. I also perform studies to estimate  
10 the cost of capital for utilities that are seeking rate relief.

11  
12 Q. Please describe your educational background and professional experience.

13 A. In 1998, I graduated Cum Laude from Arizona State University, receiving a Bachelor of  
14 Science degree in Global Business with a specialization in Finance. My course of studies  
15 included classes in corporate and international finance, investments, accounting, and  
16 economics. In 1999, after working as an internal auditor for one year, I was employed by  
17 the Commission as an Auditor III in the Accounting & Rates Section's Financial  
18 Analysis Unit. Since that time, I have attended various seminars and classes on general  
19 regulatory and business issues, including cost of capital and energy derivatives. In  
20 December of 2000, I was promoted to a Senior Rate Analyst.

21  
22 Q. What is the purpose of your testimony?

23 A. The purpose of my testimony is to present Staff's analysis and recommendations  
24 regarding the proposed sale of certain electric utility properties in Arizona and the  
25 transfer of the Certificate of Convenience and Necessity ("CC&N") from Continental  
26 Divide Electric Cooperative ("Continental") to the Navajo Tribal Utility Authority  
27 ("Utility Authority"), and to provide a recommendation to the Commission.  
28

1 Q. Was this testimony prepared by you or at your direction?

2 A. Yes.

3

4 Q. Upon what standards are you basing your recommendations?

5 A. Utility Authority must be found to be a fit and proper entity to receive the CC&N of  
6 Continental and the transfer of Continental's electric assets in Arizona must be in the  
7 public interest.

8

9 **SUMMARY OF THE TRANSACTION**

10 Q. Please describe the joint application of Continental and Utility Authority.

11 A. On April 13, 2000, Continental and Utility Authority entered into a definitive agreement  
12 of purchase and sale ("AGREEMENT") under which Utility Authority will acquire  
13 Continental's electric transmission and distribution systems in the state of Arizona and  
14 attendant CC&N. Continental currently serves approximately 1,487 customers in Apache  
15 County, Arizona, and approximately 25,000 system wide.

16

17 The purchase price of the assets is \$2,300,000, compared to a book value of  
18 approximately \$2,113,163.

19

20 Q. Why is Utility Authority purchasing the Continental properties?

21 A. According to responses to Staff's data requests, Utility Authority is purchasing the  
22 Continental properties in order to carry out the purposes in its plan of operation, which is  
23 to provide electric, gas, and water/wastewater utility services to the Navajo Nation.

24 ...

25 ...

26 ...

27 ...

28 ...



1 Q. Specifically, what assets will be transferred to Utility Authority?

2 A. The application seeks authority to transfer all of Continental's electric assets located in  
3 Arizona to Utility Authority. Specifically, these include:

- 4 -38 miles of 69kV line
- 172 miles of single-phase distribution line
- 5 -98 miles of three-phase distribution line
- 6 -.517 acre substation fenced site, 1.15 acre total site
- Power transformer, 7.5mVA
- 7 -45 various breakers (including substation)

8 Q. How does Utility Authority intend to finance the proposed acquisition?

9 A. According to Utility Authority, it will pay for the acquisition out of its general funds. I  
10 will provide a detailed financial analysis of Utility Authority later in my testimony.

11  
12 **PARTIES TO THE TRANSACTION**

13 Q. Please provide a brief description of Continental.

14 A. Continental is a New Mexico-based electric distribution cooperative, which provides  
15 electric service to New Mexico and Arizona customers. Continental currently serves  
16 approximately 25,000 customers, 1,487, or approximately 6.0 percent of, which are  
17 located in Arizona. The divisional office serving Arizona customers is located in Gallup,  
18 New Mexico.

19  
20 Q. Why is Continental selling its electric transmission and distribution systems in Arizona?

21 A. Continental provides electric transmission and distribution service on portions of the  
22 Navajo Reservation. In accordance with its twenty-five year Franchise Agreement with  
23 the Navajo Nation signed in 1964, the terms of the 1964 Franchise Agreement granted  
24 Continental rights-of-way for a term of 25 years. Upon expiration of the Franchise, the  
25 Navajo Nation had the option to purchase Continental's lines and facilities located on the  
26 Reservation. The Navajo Nation exercised its option to purchase the assets pursuant to  
27 the 1964 Franchise, but negotiations for the purchase and sale were not completed prior  
28 to the expiration of the Franchise. Continental and the Navajo Nation entered into

1 another Franchise Agreement in 1992, which allowed Continental to continue to provide  
2 electric service on an interim basis. On December 28, 1994, the Navajo Nation notified  
3 Continental that it was exercising its option to purchase the Continental properties, and  
4 that Utility Authority would act as its agent to negotiate and purchase these electrical  
5 facilities. On April 13, 2000, an agreement for the transfer was finally reached.

6  
7 Q. Please provide a brief description of Utility Authority.

8 A. Utility Authority was formed in 1965 by the Navajo Nation, a federally recognized Indian  
9 Tribe. Its principal office is located in Fort Defiance, Arizona, with five district offices  
10 located in Fort Defiance, Chinle, and Kayenta, Arizona, and Shiprock and Crownpoint,  
11 New Mexico. Utility Authority provides electric, gas, water, and wastewater utility  
12 services to the Navajo Nation. Utility Authority's service area covers approximately  
13 25,000 square miles within the Navajo Indian Reservation in Arizona, New Mexico, and  
14 Utah. At the end of 1999, Utility Authority had approximately 500 employees with  
15 approximately 31,000 electric customers, 7,000 gas customers, and 26,000  
16 water/wastewater customers.

17  
18 Utility Authority is not subject to regulation by the Commission. Instead, its operations  
19 on tribal land are subject to regulation by tribal law, and are limited by the Navajo Nation  
20 Council to providing public utility services.

21  
22 **Rates**

23 Q. What rates is Continental currently charging for residential service?

24 A. Continental currently charges a monthly system/service charge of \$5.00 plus \$0.07680  
25 per kilowatt-hour ("kWh"). Continental's average residential customer uses  
26 approximately 372 kWh per month, resulting in an average monthly residential bill of  
27 \$33.57.  
28

1 Q. How do Continental's current rates compare to the rates of Utility Authority?

2 A. According to tariff schedules provided by Utility Authority, it charges a system/service  
3 charge of \$3.00 plus \$0.0660 per kWh. The monthly bill for 372 kWh under Utility  
4 Authority's rates is \$29.55.

5  
6 Q. Are these the same rates Utility Authority plans to charge after it acquires the Continental  
7 electric system?

8 A. Yes. Utility Authority plans to charge these rates to the former Continental customers.  
9 The new rates reflect a decrease of \$4.02 per month or 12 percent for the average  
10 residential usage.

11  
12 Q. Does Utility Authority plan to adjust electric rates in the Continental service area in the  
13 next three years?

14 A. No. According to Staff data response JMR-2;

15 Use reference from data response

16 "Utility Authority does not plan to increase its electric rates during the  
17 next three years. Utility Authority has a purchase power agreement  
18 through at least 2003, with Tucson Electric Power Company which will  
19 have the effect of maintaining Utility Authority's cost of power,  
20 therefore, Utility Authority will not be increasing its rates."

21 **Service Changes**

22 Q. What will the new electric division be called?

23 A. Utility Authority anticipates that it will use the name "Navajo Tribal Utility Authority" in  
24 operating the Continental properties.

25 Q. How will Utility Authority staff and operate the Continental properties?

26 A. Utility Authority will not be hiring or using Continental's employees to operate the newly  
27 acquired system but will use personnel already located at its Ft. Defiance, Arizona district  
28

1 office. These employees currently provide water and wastewater service to parts of the  
2 areas being acquired.

3  
4 The Ft. Defiance office will house a line crew, which will respond to outages and  
5 perform normal operation and maintenance on the acquired system. The Ft. Defiance  
6 crew is 15 miles closer to the service area than the current Continental service crew  
7 located in Gallup, New Mexico, 40 miles to the east, and should result in a reduction in  
8 response time to outages.

9  
10 Q. Will Utility Authority eliminate any maintenance or customer services offices after the  
11 proposed transaction is complete?

12 A. Utility Authority does not plan to eliminate any maintenance or customer services offices  
13 and is considering opening a sub-office in Sanders.

14  
15 Q. Will customers experience any loss of existing services?

16 A. Utility Authority asserts that the customers of Continental will suffer no loss of existing  
17 services and expects that response time and the quality of service should be equal or  
18 better than the service currently provided by Continental. Further, Utility Authority will  
19 combine electric, water and wastewater bills on one billing statement.

20  
21 **Security Deposits**

22 Q. How will customer obligations such as security deposits be affected by the transaction?

23 A. According to Continental, security deposits on the account of any Arizona Continental  
24 members will be applied to the final bill from Continental and any credit balances will be  
25 refunded by Continental to the customer.

26  
27 Utility Authority has stated that customers of Continental existing at the time of the close  
28 of the transaction will not be required to pay any fees to Utility Authority. Any new

1 customers of Utility Authority added after the close of the transaction will be subject to  
2 the normal deposits and connection fees charged to all new customers.

3  
4 **Capital Credit Balances**

5 Q. What affect will the proposed transaction have on the Capital Credit balances of  
6 Continental's Arizona members?

7 A. According to Continental, "the Capital Credits will continue to be retired on a 20-year  
8 cycle as approved annually by the Board of Trustees".

9  
10 Q. Please discuss capital credits and how a cooperative's member-owned structure is  
11 different from a corporate, investor-owned structure?

12 A. Under the cooperative structure, net margins from operations are used either to improve  
13 and maintain the utility's assets or to pay out to members as Capital Credit refunds.  
14 Members of the cooperative receive Capital Credits based on the amount of electricity  
15 they purchased.

16  
17 The current Arizona members of Continental will continue to receive Capital Credits  
18 after the close of the proposed transaction. Continental retires its capital credits on a  
19 twenty year rotation cycle. For example, if the sale of Continental's Arizona assets is  
20 finalized in 2001 and the Arizona members' accounts are terminated in 2001, the current  
21 Arizona members will receive Capital Credit disbursements in the year 2021, for their  
22 usage in 2001.

23  
24 Q. Is Utility Authority projecting any reduction in overhead expense or savings as a result of  
25 the acquisition?

26 A. According to Utility Authority, no immediate synergies or decreases in overhead  
27 expenses will be realized by Utility Authority as a result of the transaction. The  
28 customers will be the main beneficiaries of the acquisition because rates will be lower,

1           there will be potentially faster response times when outages occur and the electric, water  
2           and wastewater bills will be on one statement. Further, because Utility Authority will  
3           provide various utility services, the affected customers may eventually benefit from the  
4           effects of economies of scale.

5  
6           **Customer Service and Reliability**

7  
8           Q.    Has either Continental or Utility Authority provided public notice of their application?

9           A.    Yes. Public notice of the application was published in the October 26, 2000, edition of  
10           *The Navajo Times*, and the October 25 & 28, 2000 editions of *The Independent*.

11  
12          Q.    Please discuss the quality of service provided by Continental in Arizona.

13          A.    Continental does not track the System Average Interruption Frequency Index ("SAIFI"),  
14           which is the average number of times a customer's service is interrupted. However,  
15           Continental has provided the system average outage time for Arizona, which was 0.211  
16           hours in 1999, and ranged from 0.001 hours to 0.993 hours in the previous five years.

17  
18          Q.    Has the Consumer Services Section of the Commission received any complaints  
19           regarding Continental in the past two years?

20          A.    No. The Consumer Services Section of the Commission has received no complaints  
21           regarding Continental in the past two years.

22  
23          Q.    Please discuss quality of service and complaints filed against Utility Authority.

24          A.    Because Utility Authority is not regulated by the Commission, there is no record of  
25           formal complaints filed against the utility. However, Utility Authority has indicated that  
26           it has no formal complaints pending. According to Utility Authority, most complaints are  
27           handled directly by the billing clerks. If the customer seeks further resolution, appeal  
28

1 may be made to the District Manager, then to the General Manager and finally to Utility  
2 Authority Management Board.

3  
4 Utility Authority also does not track SAIFI, but has provided its system average outage  
5 time for the previous five years. In 1999, Utility Authority's system average outage time  
6 was 3.08 hours, and ranged from 2.93 hours to 4.46 hours in the previous five years, all  
7 below the RUS guideline of 5.0 hours.

8  
9 Q. What action is Utility Authority taking in order to facilitate a smooth and orderly  
10 transition for the customers that are presently being served by Continental?

11 A. Utility Authority held a series of community meetings throughout October and November  
12 in the affected areas to explain various issues and answer all questions from current  
13 Continental customers. Utility Authority provided staff with an outline of its  
14 presentation, as well as copies of materials distributed. Some of the materials provided at  
15 the meetings include information on the following:

- 16 1) Utility Authority's Budget Payment Plan
- 17 2) Current rates
- 18 3) Utility Discount Program for Senior Citizens
- 19 4) Life-Support Care
- 20 5) Safety
- 21 6) Energy conservation
- 22 7) Utility service requests

23  
24 **Regulatory Experience**

25 Q. Is Utility Authority currently subject to rate regulation by the Commission?

26 A. No. Because Utility Authority is a Navajo Tribal entity, it is not subject to rate regulation  
27 by the Commission. Thus, after the close of the proposed transaction, the properties  
28

1 being purchased by Utility Authority will no longer be subject to regulation by the  
2 Commission.

3  
4 Q. Are there any governmental/regulatory agencies that oversee the operations of Utility  
5 Authority?

6 A. Yes, According to responses to Staff's data requests, the following agencies oversee the  
7 various operations of Utility Authority:

8  
9 1) The Government Services Committee of the Navajo Nation Council exercises  
10 oversight over Utility Authority. Oversight includes appointment of Management  
11 Board members, recommending amendments to the Plan of Operation, receipt of  
12 reports on operations and finances, and approval of procedures for appeal of rate  
13 decisions.

14  
15 2) The Budget and Finance Committee of the Navajo Nation Council receives financial  
16 and annual reports from and has authority to order an audit of Utility Authority.

17  
18 3) The Office of Navajo Labor Relations has responsibility for enforcement of Navajo  
19 preference in employment laws. The Commerce Department of the Division of  
20 Economic Development-Navajo Nation has responsibility for enforcement of Navajo  
21 preference in contracting laws applicable to Tribal agencies and departments,  
22 including Utility Authority.

23  
24 4) The Rural Utilities Service ("RUS") of the U. S. Department of Agriculture extends  
25 loans for rural electrification to Utility Authority and, as a consequence, Utility  
26 Authority is subject to the rules and regulations of the RUS. Projects that are built  
27 with federal financial assistance are subject to federal procurement laws.  
28



1           5) The Navajo Nation Environmental Protection Agency ("NNEPA") enforces  
2           environmental, health and safety laws and Utility Authority is subject to its  
3           jurisdiction.

4  
5           6) The Navajo Nation Council recently established a Navajo Nation Occupation Safety  
6           and Health Act and Utility Authority is subject to this Act, enforced by NNEPA.

7  
8       Q.   How will electric restructuring affect Utility Authority's electric operations in Arizona?

9       A.   According to Utility Authority, the utility has no immediate plans to participate in  
10       restructuring or competition.

11  
12       **Capital Expenditures**

13       Q.   Was Continental anticipating any significant capital expenditures in Arizona in the near  
14       future?

15       A.   No. According to Continental, its present Work Plan does not include any projects in  
16       Arizona between 2000 and 2002.

17  
18       Q.   Has Utility Authority generated any capital budgets for the Continental properties it will  
19       be acquiring?

20       A.   Not yet. Utility Authority has stated that it will consider its own capital budgets for the  
21       area after the acquisition has been completed.

22  
23       **Utility Authority's Financial Capability**

24       Q.   Please discuss Utility Authority's overall financial capability.

25       A.   Utility Authority has provided copies of the Independent Auditors Report prepared by  
26       KPMG for 1999, as well as Utility Authority's RUS Form 7 reports for its electric  
27       operations for the previous five years. Exhibit JMR-1 shows Utility Authority's income  
28       statement and balance sheets for the years 1998 and 1999. It can be seen from the exhibit

1 that Utility Authority had a times interest earned ratio ("TIER") of 2.50 and 1.59 in 1998  
2 and 1999, respectively. The TIER measures the number of times earnings will cover  
3 interest payments. Generally, a TIER of at least 1.50 is preferred.

4  
5 Utility Authority's current ratio, calculated by dividing current assets by current  
6 liabilities, was 1.39 in 1999. This ratio indicates the extent to which current liabilities are  
7 covered by those assets expected to be converted to cash in the near future. A current  
8 ratio above 1.0 indicates the ability to meet current liabilities in times of distress.

9  
10 Total equity for 1999 was \$119,840,357, up \$5,460,753 from the previous year, and  
11 comprised approximately 79 percent of total capital. Long-term debt excluding the  
12 current portion totaled \$32,001,684, comprising approximately 21 percent of total capital.  
13 This capital structure represents little financial risk, and is consistent with sound financial  
14 health. The majority of Utility Authority's long-term debt is with the Rural Utilities  
15 Service ("RUS") and National Rural Utilities Cooperative Finance Corporation ("CFC")  
16 at favorable interest rates. Thus, the Authority has a proven ability to attract reasonably-  
17 priced capital.

18  
19 Q. In your opinion is Utility Authority financially capable of acquiring Continental's electric  
20 assets in Arizona?

21 A. Based on Utility Authority's audited financial statements, I believe that it is financially  
22 sound and capable of acquiring and operating Continental's electric assets in Arizona.

23  
24 **Conclusion and Recommendation**

25 Q. Does Staff recommend approval of the proposed sale of assets and transfer of the CC&N  
26 from Continental to Utility Authority?

27 A. Utility Authority has 35 years of experience providing utility service to portions Arizona,  
28 New Mexico, and Utah. Staff believes that in addition to lower rates, the current

1 customers of Continental may experience other benefits as a result of the transaction,  
2 such as faster response times when outages occur and the convenience of receiving  
3 electric, water, and wastewater bills on the same statement.  
4

5 Staff believes that, from a technical and operational standpoint, the customers in the  
6 affected service areas will not be adversely affected by the proposed sale and transfer of  
7 the assets and CC&N. Staff believes that Utility Authority is financially sound and has  
8 the financial capability of providing service to the current Arizona customers of  
9 Continental. Further, Staff believes that the customers may ultimately benefit from  
10 reduced administrative and overhead costs resulting from economies of scale.  
11

12 Staff believes that Utility Authority is a fit and proper entity to assume the CC&N  
13 currently held by Continental and the transfers are in the public interest.  
14

15 Staff recommends that the proposed sale of assets should be approved, subject to a  
16 hearing.  
17

18 Q. Does this conclude your direct testimony?

19 A. Yes, it does.  
20  
21  
22  
23  
24  
25  
26  
27  
28